

- b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from any SBC BOC/ILEC to other affiliates.
 - c. For those items purchased or transferred from a SBC BOC/ILEC, either directly or through another affiliate, since July 10, 2003, also inquire and obtain details as to how the SBC BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities and disclose in the report. Describe and disclose in the report how and upon what basis the SBC BOC/ILEC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity.
- 10. Obtain as of the end of the Audit Test Period a detailed listing of all fixed assets of each SBC BOC/ILEC which were purchased or transferred from any section 272 affiliate to a SBC BOC/ILEC since July 10, 2003. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. For those items purchased or transferred from a section 272 affiliate, obtain net book cost and fair market value. Also determine if these items were originally transferred to the section 272 affiliate from some other affiliate (BOC or other), or purchased originally by the section 272 affiliate. Inspect these transactions to determine whether they were recorded in the books of the SBC BOC/ILEC at the lower of FMV or net book cost, as required by the Commission's rules in section 32.27. Disclose results of this inspection in the audit report.
 - 11. Where assets and/or services are priced pursuant to section 252(e) (i.e., as approved by the regulatory commissions) or statements of generally available terms pursuant to section 252(f), for a statistically valid sample of assets and/or services, compare the price each SBC BOC/ILEC charges each section 272 affiliate to the stated price in the publicly-filed agreements or statements and document any differences in the report.
 - 12. Inquire and obtain details as to whether any part of the SBC BOC/ILECs' Official Services network was transferred or sold to a section 272 affiliate since July 10, 2003. In addition to the requirements for Procedure 9, for any transfer or sale of Official Services network assets on or after July 10, 2003, inquire and obtain details as to how the SBC BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the SBC BOC/ILEC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

OBJECTIVE VII. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of sections 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)
- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)
- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)
- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

- (i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in Section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.
- (ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of

interLATA services (see section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)
- in developing new services solely for its section 272 affiliate(s). (See First Report and Order, para. 210)
- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)
- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange service. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (See *In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain the SBC BOC/ILECs' written procurement procedures, practices, and policies. Review these policies for any stated purchasing preferences, and generally describe or summarize in the report. Also generally describe or summarize in the report the bidding and selection processes of the SBC BOC/ILECs, and how the SBC BOC/ILECs disseminate requests for proposals (RFPs) to affiliates and third parties.
2. Obtain and inspect the SBC BOCs' procurement awards to each section 272 affiliate during the Audit Test Period and inspect bids submitted by each section 272 affiliate and third party; note terms, discuss with SBC BOC representatives how the selection was made, and generally describe or summarize in the report. Compare this practice with the

SBC BOC written procurement procedures and note any differences. Generally describe or summarize in the report all instances of procurement awards given to the section 272 affiliates. For these awards, generally describe or summarize in the report all differences between the terms submitted by the section 272 affiliates and the terms of any bids by third parties where such bids were rejected by the SBC BOC.

1. Obtain a list of all goods (including software), services, facilities, and customer network services information [excluding CPNI as defined in section 222(f)(1) of the Act, exchange access services and facilities inspected in Objective IX, and interLATA services and facilities inspected in Objective XI] made available to each section 272 affiliate by the SBC BOC/ILEC. For a statistically valid sample of items from this list, inquire and obtain copies of the media used by the SBC BOC to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. Disclose in the report the results of this procedure.
4. a. Obtain a list of all goods (including software), services, facilities, and customer network proprietary information (excludes CPNI) that were purchased during the Audit Test Period from the BOC/ILEC(s) by both an unaffiliated entity and any section 272 affiliate in any state. (NOTE: This list should **exclude** exchange access services, local exchange services, and interLATA services that are the subject of other procedures.) If any, describe in the audit report what goods, services, facilities, and customer network services information were purchased and the extent of purchases made. From the list obtained above, determine the 9 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. For each service selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.
 1. Inquire and document the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliates and nonaffiliates (e.g., the same rate table is used for all carriers). For each service selected, obtain the billing system rate tables. Randomly select one rate per service including any applicable discounts, surcharges, late fees, etc., used to bill the selected service to the section 272 affiliates. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the audit report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than those billed to nonaffiliates. Inquire and document the BOC/ILECs' procedures for updating the rate tables for the Audit Test Period.
 2. For each billing system identified that is used to bill section 272 affiliates, document in the work papers the practices and processes the SBC BOC/ILECs have in place to ensure the billing system bills the section 272 affiliates and

nonaffiliates at the same rates and under the same terms and conditions. Document the BOC/ILEC internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Include in the audit report a discussion that outlines in summary format what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also include a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. Randomly select three individual non-consecutive months during the Audit Test Period. For each month selected, obtain the billing records/invoices for the 10 services to be tested that were identified in step a. above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. From the invoices for each service, judgmentally select ten line items for the service. Monitor and review the judgmental sample to ensure that all 10 services to be tested are represented, that each service has at least 10 items, and that all states are represented. For each line item selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. If historic rate tables are not available, perform the test with the current rate tables obtained in step a. above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table. Also for each line item test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any intercompany automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded. Also test that the transaction (and the same amount) was properly recorded on the section 272 affiliate's books, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts.

c. For each billing system that is used by the BOC/ILEC(s) to bill unaffiliated entities that is different than a billing system used to bill the same service to a section 272 affiliate,

perform the procedures listed in steps a.1. and a.2. above. For each service to be tested identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the audit report.

d. Using the same randomly selected three individual non-consecutive months identified in step b, obtain the billing records/invoices from each billing system tested in step c (each system used to bill nonaffiliated entities that is different than the system used to bill the same service to section 272 affiliates), for the 10 services to be tested identified in step a that were billed to unaffiliated entities. Billing records should be for all BOC/ILECs, all states. From the invoices for each service, judgmentally select ten line items for the service. Monitor and review the judgmental sample to ensure that all 10 services to be tested are represented, that each service has at least 10 items, and that all states are represented. For each line item selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. If historic rate tables are not available, perform the test with the current rate tables obtained in step c. above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed was calculated using the appropriate rate in the rate table. Also, for each line item test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the nonaffiliate, and each instance where the payment of the bill was not properly recorded, or not recorded.

e. For local exchange services purchased from the BOC/ILECs by both an unaffiliated entity and any section 272 affiliate, obtain detailed billing data reports for section 272 affiliate employee locations in Pleasanton, California, Rosemont, Illinois, and Brookfield, Wisconsin, for May, 2005. For the three wire centers which serve these work locations, obtain detailed billing data reports for unaffiliated customers with the same class of service in these same wire centers for the same month. Identify the 9 USOCs billed to the section 272 affiliate(s) with the highest dollar volumes, plus one additional USOC selected at random. Document in the audit report which system(s) is used to bill local exchange services. Also inquire and document how the BOC/ILECs update the rate tables in the billing system(s) used for local exchange services. Compare the USOC rates charged to the section 272 affiliate(s) to the rates charged to unaffiliated customers. Disclose any differences in the audit report, and obtain explanations from management for any differences. Document management's response(s) in the audit report. Also obtain from management a written representation that these wire centers are the three wire

centers that provide the majority of local exchange services to the section 272 affiliates, as well as a representation that none of the section 272 affiliates resell local exchange services. Also test that the billing to the section 272 affiliate(s) for the three wire centers for the month selected was properly recorded by the BOC/ILECs, and that the billed amount was paid. Disclose in the audit report each instance where a discrepancy is found in the recording of the bill by the BOC/ILEC, or in the payment of the bill by any section 272 affiliate.

5. Document and disclose in the report how the SBC BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Note any differences in the report.
6. At the service call centers observed in Procedure 7 below, obtain and inspect scripts that SBC BOC's customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. If these scripts contain language to attempt to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services and that these providers, along with the interLATA service affiliates, are identified to the consumers. In addition, obtain and inspect the written content of the SBC BOC website for on-line ordering of new service or to move an existing local telephone service; note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and that these providers, along with the interLATA service affiliate, are identified to the consumers.
7. Obtain a complete listing, as of the end of the Audit Test Period, of all SBC BOC sales and support customer service call centers.
 - a. From the listing, compile a list of SBC BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, identify and group each call center by type of customers, i.e., "Consumer" or "Business" or "Global." Using a random number generator, select six Consumer call centers and four Business call centers. Listen in to a statistically valid number of calls (100 in total, or 10 per call center) in which the customer service representatives marketed the section 272 affiliates' interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. Labor union concurrence may be needed for this procedure. For all calls observed where the customer service representative marketed any section 272 affiliate's interLATA services, note the equal access messages conveyed while listening in. Note and disclose in the report any instances where the customer service representative a) did not provide the equal access disclosure contemporaneously with any attempt to market/sell the interLATA services of any section 272 affiliate; b) did not offer to read the names of other providers of interLATA services to the caller; or c) did not clearly inform the caller of his right to select the interLATA

services provider (“equal access disclosure”).

- b. For the Global sales channel, inquire and document in the report the methods and controls that are in place to ensure that the equal access notification of informing customers that they have a choice to select the interLATA services provider is given to inbound customers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory.
 - c. From the listing, compile a list of call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory (such as sales and service centers that usually receive customer inquiries from existing customers). Using a random number generator, select three such Consumer call centers and two Business call centers, and listen in to 20 calls per center. Labor union concurrence may be needed for this procedure. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should report the results of the 100 total calls to the Oversight Team for further instructions. The Oversight Team will inform SBC of the instructions provided to the practitioner.
8. Obtain a listing of all call centers managed by third parties in which representatives of third-party contractors of the SBC BOCs respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service to another location within the BOC in-region territory. Using a random number generator, select three Consumer call centers and the one Business call center. Listen in to 25 calls per call center. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should report the results of the 100 total calls to the Oversight Team for further instructions. The Oversight Team will inform SBC of the instructions provided to the practitioner.
9. Identify the controls utilized by SBC BOCs and the third party contractors hired for inbound telemarketing to assure compliance by SBC BOCs with section 272. Compare SBC BOC controls with third party contractor controls and document differences in the audit report. Describe all controls in the report.
10. Obtain and review each of the contracts between SBC BOCs and third party contractors that provide telemarketing of any section 272 affiliate’s interLATA services. Document in the audit report all controls contained in the contracts relating to section 272.

OBJECTIVE VIII. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

STANDARDS

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of sections 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, further proceedings regarding performance measurements (currently underway) will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when adopted by the FCC, and to the extent in effect during the engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)
- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)
- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its section 271 applications, SBC made commitments regarding its compliance with the nondiscrimination obligations of section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in SBC's dealings with its section 272 affiliates. If the Commission adopts reporting requirements, SBC BOC/ILECs will fully comply.

PROCEDURES

1. Document in the working papers the practices and processes the SBC BOC/ILECs have in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliates, other affiliates, and nonaffiliates in each state where SBC has been authorized to provide in-region interLATA services. If the section 272 affiliates, or BOC and other BOC affiliates, are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report each BOC's internal controls and procedures designed to implement its duty to provide nondiscriminatory service.
2. For each state where SBC has been authorized to provide in-region interLATA services, document in the working papers the processes and procedures followed by each SBC

BOC/ILEC to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Note any differences in the report. Inquire of management whether any employees of the section 272 affiliates, or BOC and other BOC affiliates, have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Disclose in the report any such instances

3. For each state where SBC has been authorized to provide in-region interLATA services, obtain written methodology that each SBC BOC/ILEC follows to document time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for the services described in Procedure 4 below. Briefly describe this methodology in the report. If the company does not have any written procedures inquire and document why in the report.
4. For each state where SBC has been authorized to provide in-region interLATA services, obtain, and include as an attachment to the report, performance data and related volumes maintained by each SBC BOC/ILEC during the period July 1, 2003, through June 30, 2005, by month, indicating time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates, as separate groups, for the following services:
 - Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.
 - Exchange access services as provided through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups; for the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.
 - Unbundled network elements if any section 272 affiliate leases unbundled network elements.
 - Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the auditor to obtain the information to be included in the metrics. The auditor shall obtain such information if a service was

provided during the engagement period with respect to either the "section 272 affiliates" or the "BOC and other BOC affiliates" groups. Performance measures for the "nonaffiliates" group should only be obtained for the services purchased by the "section 272 affiliates" and/or the "BOC and other BOC affiliates." For each group (section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates) and each service category (telephone exchange service, exchange access service, UNEs, and PIC change orders) combination in the table below for which the SBC BOC/ILEC makes a claim of "not applicable," the practitioner must confirm independently that there are no such section 272 measurements to be reported (i.e., performance data is not tracked and maintained for section 272 reporting purposes), or get a representation letter from management that such section 272 measurements are not available.

SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE MEASUREMENT REPORTING

Company Type	Telephone Exchange Service	Exchange Access Service (ASRs Only)	UNEs	PIC Change Orders (both interLATA and intraLATA PIC changes)
Section 272 Affiliate	Included - if the section 272 affiliate resells local service or intraLATA toll service	Included	Included if applicable	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided on a Resale basis	Included - to measure services provided to end users on a Retail basis, and Wholesale services provided to affiliates	Included only if any section 272 affiliate leases UNEs from the BOC	Included if applicable
Non-Affiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included - to measure services provided on a Resale basis	Included	Included only if any section 272 affiliate leases UNEs from the BOC	Included

The performance measures should include the requested performance data by month for each state beginning with the first whole month of data following July 1, 2003 or section 271 approval if later, for that state and ending on June 30, 2005. Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For purposes of inclusion in the audit report, the practitioner should obtain all restatements of

any performance data, and include in the report the latest restatement.

For each of the above service categories, except for PIC change orders, SBC has committed to maintain in each section 271 application measurements to prove compliance with these nondiscriminatory requirements. The measurements are as follows:

- a. Successful Completion According to Desired Due Date (measured in a percentage).
Indicate the total number of service orders for each service and for each group of customers.
- b. Time from BOC Promised Due Date to Circuit being Placed in Service (measured in terms of number of days after due date until 95% installation completed). Indicate the total number of installation orders for each service and for each group of customers.
- c. Time to Firm Order Confirmation (measured in terms of number of days until 95% of FOCs sent). Indicate the total number of order requests for each service and for each group of customers.
- d. Mean Time to Restore and trouble duration (measured in terms of number of hours until resolution of 95% of incidents). Indicate the total number of trouble reports for each service, for each group of customers.
- e. Mean time to clear network /average duration of trouble (measured in hours).
Indicate the total number of circuit-specific trouble reports for each service, for each group of customers.

For PIC change orders, the measurements are as follows:

- a. Time from PIC change request to implementation (measured in terms of number of 6 hour periods until 95% PIC changes completed). Indicate the total number of PIC change orders.
- b. Time to restore PIC after trouble incident (measured in terms of number of hours until 95% PIC troubles cleared). Indicate the total number of PIC trouble reports.

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Elicit explanations from SBC where fulfillment of requests from nonaffiliates took longer than for the section 272 affiliates. To the extent parity testing/reporting is used to explain the differences, obtain and document such results in the work papers. Provide in the report a linear graph for each state, for each performance measure, for each service, over the entire engagement period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. If the requested performance data is not available in the manner described in this procedure (by month, by company type, by services) for the entire engagement period inquire and disclose in the audit report the period and description of the data that are lacking and the reasons why.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly select three months during the engagement period for all states where SBC has obtained authority to provide in-region interLATA services. For the selected month, apply the business rules to the underlying raw data and compare the results to those tracked and maintained by SBC BOC/ILEC for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.
6. Determine by inquiry, first, and then by inspection, how and where the SBC BOC/ILECs make available to unaffiliated entities information regarding service intervals that were experienced in providing any service to the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Document the results in the report.

OBJECTIVE IX. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

STANDARDS

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of sections 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate. (See First Report and Order, para. 16)
- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its section 272 affiliate. (See First Report and Order, para. 316)

PROCEDURES: This objective is closely related to Objective XI which contains procedures for the provision by the BOC of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain list of exchange access services and facilities with their related rates offered to each section 272 affiliate and inspect to determine whether the SBC BOC/ILECs make these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered to each section 272 affiliate with those offered to unaffiliated carriers. Note in the report all exceptions.
2. a. Select three months at random from the Audit Test Period. For each of the three months selected, obtain a listing of all exchange access services and facilities (Universal Service Order Code ("USOC")/class of service) rendered to the section 272 affiliate(s). From the listing of all exchange access services and facilities that were rendered by the BOC/ILECs to any section 272 affiliate during the three months selected, determine the 9 exchange access services/facilities billed to section 272 affiliates with the highest billing volume in dollars (determination should be made based on accumulated billing to all section 272 affiliates). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. Verify that each of the "highest 9" and "random" services meets both of the following conditions: i) the USOC/class of service was also rendered to unaffiliated third parties, and the dollar amount of billing for such service to third parties was greater than 25% of the total quantity of such service sold by

the BOC/ILECs, and ii) at least one of the unaffiliated third parties purchasing such service was an interLATA service provider. If either of the two conditions is not met, select the next "highest" dollar billing volume service, or another random service if applicable, until both conditions are met. For each of the final exchange access services/facilities to be tested, determine which billing system the BOC/ILEC(s) uses to bill the selected service/facility, and disclose in the report whether the same system(s) is used for the billing of both section 272 affiliates and other IXCs.

1. Inquire and document the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates (e.g., the same rate table is used for all carriers). For each exchange access service and facility selected to be tested, and for each billing system used to bill the section 272 affiliates, obtain the billing system rate tables including any applicable discounts, surcharges, late fees, etc., used to bill the selected service. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the audit report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than those billed to nonaffiliates. Inquire and document the BOC/ILECs' procedures for updating the rate tables for the Audit Test Period.

NOTE: As an alternative to obtaining the billing system rate tables, the practitioner may instead obtain a list from SBC of the rates contained in the rate tables for each USOC included in the 90 selected billing transactions in step b. If this option is elected, the practitioner must also obtain from SBC a written representation that the rates provided were taken from the billing system rate tables.

2. For each billing system identified that is used to bill section 272 affiliates, document in the work papers the practices and processes each SBC BOC/ILEC has in place to ensure the billing system bills the section 272 affiliate and nonaffiliates at the same rates and under the same terms and conditions. Document the BOC's internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Include in the audit report a discussion that outlines in summary format what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also include a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. For each month selected in step a, obtain the billing records for each of the 10 services to be tested (each of the 10 USOCs to be tested) identified in step a above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each USOC, randomly select three billing transactions (e.g., three line items or three circuits) for a total of 90 transactions. For each billing transaction selected, test each transaction for the proper application of the rate per the appropriate rate tables obtained in step a above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any intercompany automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded. Also test that the transaction (and the same amount) was properly recorded on the section 272 affiliate's books, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts.

c. For each billing system that is used by the BOC/ILEC(s) to bill exchange access services or facilities to an unaffiliated entity that is different than a billing system used to bill the same services or facilities to the section 272 affiliates, perform the procedures listed under steps a.1. and a.2. above. For each service to be tested identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the audit report.

d. Using the same three randomly selected months from step a, and the same 10 services to be tested identified in step a, obtain the billing records for each of the services to be tested from each billing system used by the BOC/ILEC(s) to bill exchange access services or facilities to nonaffiliates that is different than the billing system used to bill the same services to the section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each USOC, randomly select three billing transactions (e.g., three line items or three circuits) for a total of 90 transactions. For each billing transaction selected, test each transaction for the proper application of the rate per the appropriate rate tables tested in step c above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly

recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the third party, and each instance where the payment of the bill was not properly recorded, or not recorded.

OBJECTIVE X. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

STANDARDS

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate (See First Report and Order, para. 16). This requirement is met,
 - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)
 - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under section 251. (See First Report and Order, para. 256)
 - If the BOC files with the State Commission a statement of generally available terms pursuant to section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)
 - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)
- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)
- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of interLATA services offered by each SBC BOC/ILEC and discuss the list with appropriate SBC BOC employees to determine whether the list is comprehensive. Compare the services appearing on the list with interLATA services disclosed in the SBC BOCs' Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in the SBC BOCs' CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order (for example, E911); note any differences and disclose in the report.
2. For each interLATA service on the list of services obtained in Procedure 1 above, determine whether each SBC BOC is imputing (charging) to itself an amount for access, switching, and transport. If imputation is not occurring for any interLATA service offered by any SBC BOC/ILEC, inquire of management and document in the report why this situation is occurring. For each service for which imputation is performed, and for each month during the engagement period, obtain usage details and tariff rates for each of the access, switching, and transport elements. Match the rates used in calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs) for all months of the engagement period and note any differences in the report. When differences occur, calculate and include in the report for each service the difference in the total amount imputed vs. the total amount that should have been imputed for each calendar year. For each service for which imputation is performed, trace the imputed amounts for one month selected at random from the engagement period for each SBC BOC/ILEC to the journal entry and to the general ledger of the SBC BOC/ILEC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by any SBC BOC/ILEC is different from the one described above, disclose in the report.
3. For each of the following categories of services, viz., exchange access services, local exchange services and unbundled network elements, provided by any SBC BOC/ILEC to the section 272 affiliates for the last 12 months of the engagement period, document the total amount the section 272 affiliates have recorded as expense for those services in their books, and compare the amounts booked as revenues by the SBC BOC/ILECs to the amounts recorded by the section 272 affiliates. Also compare the amount recorded as expense to the amount paid by the section 272 affiliates to the SBC BOC/ILECs. Where there is a difference in any of the comparisons, inquire as to the reason(s) why, and disclose in the report.

OBJECTIVE XI. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

STANDARDS

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC services and unbundled network elements made available under section 251 to each section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

PROCEDURES: This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain a list from each SBC BOC/ILEC of interLATA services and facilities with their related rates offered by the SBC BOC/ILEC to each section 272 affiliate to determine whether the SBC BOC/ILEC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, also obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services.

Compare the list obtained from the SBC BOC/ILECs to the services found in the obtained information media and note any differences in the audit report. In addition, compare the list obtained from the SBC BOC/ILECs to the list of interLATA services obtained in Objective V/VI, Procedure 4, and to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM). Document in the audit report any instance where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media that were not reported by the SBC BOC/ILECs in response to this procedure. Also document in the audit report any interLATA services that are offered to any section 272 affiliate, but which are not covered by any written agreements.

2. Using the information media obtained in Procedure 1, select a statistically valid sample of the informational media identified above; compare rates, terms, and conditions offered each section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers, and disclose differences in the report.
3. a. Obtain a listing of all interLATA services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) during the Audit Test Period. From the listing of all interLATA services and facilities that were rendered during the Audit Test Period by the BOC/ILEC(s) to both unaffiliated entities and any section 272 affiliate in any state, determine the 9 interLATA services/facilities billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). In addition, randomly select one service from among the remaining services for a total of 10 services to be tested. If there were not 10 different interLATA services/facilities rendered to unaffiliated entities, for purposes of this procedure select each interLATA service or facility rendered to an unaffiliated entity. Determine which billing system the BOC/ILEC(s) uses to bill each of the selected interLATA services and facilities, and disclose in the report whether the same system(s) is used for the billing of both section 272 affiliates and other IXCs.
 1. Inquire and document the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliates and nonaffiliates (e.g., the same rate table is used for all carriers). For each interLATA service and facility selected, and for each billing system used to bill the section 272 affiliates, obtain the billing system rate tables, including any applicable discounts, surcharges, late fees, etc., used to bill the selected service to the section 272 affiliates. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the audit report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than those billed to nonaffiliates. Inquire and document the BOC/ILECs' procedures for updating the rate tables for the Audit Test Period.
 2. For each billing system identified above that is used to bill section 272 affiliates, document in the work papers the practices and processes the SBC BOC/ILEC has in place to ensure the billing system bills the section 272 affiliates and nonaffiliates at the same rates and under the same terms and conditions. Document the BOC/ILEC internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Include in the audit report a discussion that outlines in summary format what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also include a summary

of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. Randomly select three individual non-consecutive months during the Audit Test Period. For each month selected, obtain the billing records for the 10 services to be tested identified in step a. above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each service to be tested, randomly select 10 billing transactions from the three months of billing records. If fewer than 10 interLATA services/facilities are used for this procedure, continue selection of billing transactions at random until 100 such transactions are selected. For each billing transaction selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. If historic rate tables are not available, perform the test with the current rate tables obtained in step a. above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), or any intercompany automatic settlement payment and/or treasury payment process, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliates, and each instance where the payment of the bill was not properly recorded, or not recorded. Also test that the transaction (and the same amount) was properly recorded on the section 272 affiliate's books, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts.

c. For each billing system that is used by the BOC(s) to bill interLATA services or facilities to an unaffiliated entity that is different than the billing system used to bill the same service to the section 272 affiliates, perform steps a.1. and a.2. above. For each service to be tested identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the audit report.

d. Using the same three randomly selected months from step b, and the same 10 services to be tested identified in step a, obtain the billing records for the 10 services to be tested from each billing system used by the BOC/ILEC(s) to bill interLATA services or

facilities to nonaffiliates that is different than the billing system used to bill the same services/facilities to the section 272 affiliates. Billing records should be for all BOC/ILECs, all states. If there were not 10 different interLATA services/facilities rendered to unaffiliated entities, for purposes of this procedure select each interLATA service or facility rendered to an unaffiliated entity. For each service to be tested, randomly select 10 billing transactions from the three months of billing records. If fewer than 10 different interLATA services/facilities are used for this procedure, continue selection of billing transactions at random until 100 such transactions are selected. For each billing transaction selected, test each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. If historic rate tables are not available, perform the test with the current rate tables obtained in step c above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed was calculated using the appropriate rate in the rate table. Also test that the transaction, including the subsequent receipt of payment or the equivalent, was properly recorded by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of relevant documents and records, e.g., screens, summaries, etc., for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the third party, and each instance where the payment of the bill was not properly recorded, or not recorded.

Procedures for Subsequent Events

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. If so, identify those changes and re-perform the related procedures to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.
2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event. (See Paragraph 4 within the Compliance Requirements of these agreed-upon procedures for the scope of the audit.)

BINDER 2 - APPENDIX A ATTACHMENTS

AT&T Inc.

December 15, 2005

